How Buyers Are Converting Leverage into Affordability

Rates shot up 4 years ago and have remained high ever since. We're now working through our last stage in the grief cycle:

Denial (2022) "This is just a blip, rates will come right back to 3% any day!"

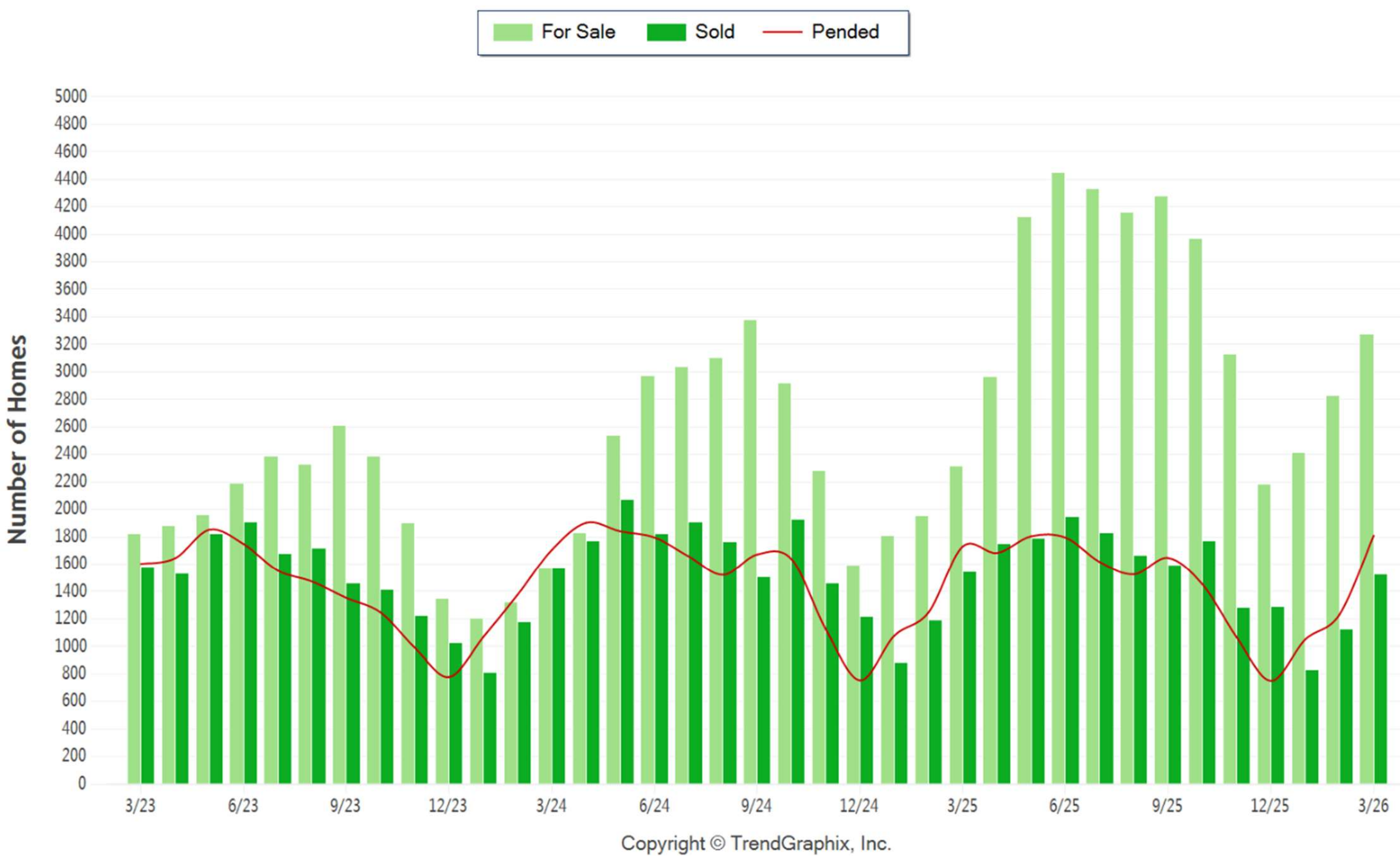
Anger (2023) "Why didn't I buy when I had the chance!"

Bargaining (2024) "OK, I'm just going to remodel my house and forget about trading up!"

Depression (2025) "I can't believe I'm still stuck and housing is so unaffordable (sob)!"

Acceptance (2026) "Rates are never coming down so let's just make our move."

The King County real estate market has started favoring buyers:



The number of homes selling has remained largely even over the past few years. But the number of listings available has surged. Because the market is looser than in previous years, buyers, who have been sidelined because of affordability constraints – are both experiencing more leverage and are needing to convert that leverage into affordability.

Traditionally, buyer leverage = price concessions. For example, the seller listed their home for 700k but the buyer negotiates that down to 675k. In that case, the buyer could end up with a 7% mortgage rate and a $3,593 mortgage:

	$25,000 Price Concession
675,000	Purchase Price
540,000	Loan Amount
7.000%	**Int Rate (no buydown)**
3,593	Principal + Interest

An interesting feature of today's market is that it is becoming routine for buyers to NOT get price reductions. But instead, they will take concessions in the form of seller paid closing costs – specifically to pay down their mortgage rate. Here's what that can look like – if they use the 25k seller concession towards their rate instead of the price:

	$25,000 Rate Concession
700,000	Purchase Price
560,000	Loan Amount
5.500%	**Int Rate after Buydown**
3,180	Principal + Interest

The takeaway is that, by applying the concession to their interest rate instead of the price, the buyer is able to get a mortgage payment that is lower by $413/month. Quite a bit!

I find this fascinating because buyers who are doing this – are basically betting that rates will not drop significantly for at least 5 years. The reason is that if rates drop next year down to 5%… then they will simply refinance down to 5% and they will have wasted the 25k they spent on getting the 5.5% rate. So, the buyers are truly accepting the current rates as here to stay… and are adjusting their buying strategies accordingly.